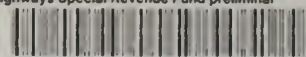


388.114 Highways Special  
L73hsrf Revenue Fund  
1994 preliminary budget  
projections, 1997  
biennium

S 388.114 L73hsrf 1994 c.1 Culver  
Highways Special Revenue Fund preliminar



3 0864 00092123 2

**HIGHWAYS SPECIAL  
REVENUE FUND  
PRELIMINARY BUDGET  
PROJECTIONS  
1997 Biennium**

*A Report Prepared for the  
Legislative Finance Committee*

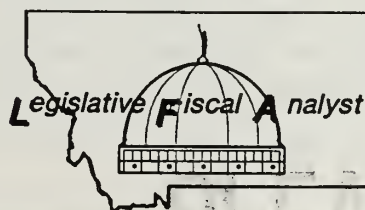
by

Skip Culver  
Associate Fiscal Analyst  
September 8, 1994

STATE DOCUMENTS COLLECTION

MAR 30 1995

MONTANA STATE LIBRARY  
1515 E. 6th AVE.  
HELENA, MONTANA 59620





Digitized by the Internet Archive  
in 2012 with funding from  
Montana State Library

<http://archive.org/details/highwaysspec0332culv>

# INTRODUCTION

## Purpose

The purpose of this report is to provide the Legislative Finance Committee (LFC) with a revised preliminary projection of the highways special revenue account fund balance in the 1997 biennium at present law levels of expenditure. It is intended to provide a broad overview of the scope of issues the legislature may face in the 1995 session. These projections are based on "broadbrush" general assumptions of expenditure and revenue patterns from the most current available information, and will be refined as staff undertake detailed budget analysis and revenue estimation in preparation for the 1995 legislative session.

## Background

The highways special revenue fund supports several highways and highways related programs, including: 1) state match funds for federal aid funds; 2) 100 percent of highway maintenance funding; 3) a 100 percent state funded Reconstruction Trust Fund (RTF) program; 4) local government highways grants; 5) administration of the Department of Transportation (DOT), the Highway Patrol Division and the Motor Vehicle Division in the Department of Justice; 6) state parks roads; and 7) other highways related programs. The primary source of state revenues is highway user fees, including fuel taxes (gasoline and diesel) and gross vehicle weight (GVW) fees.

The 1993 Legislature faced a severe structural imbalance in the highways state special revenue account, with expenditures exceeding revenues by approximately \$25 million each year. The projected deficit in the 1995 biennium required either a significant reduction in current level services or an increase in revenues. The 1993 Legislature approved several revenue measures to provide sufficient cash flow through fiscal 1995, with most new revenues generated by a 7 cent fuel tax increase (Senate Bill 257) in the 1995 biennium. Other major revenue measures included an additional 0.75 percent diesel tax increase (House Bill 651) and a revision in the method used to collect fuel tax revenues (House Bill 539).

In the LFA 1995 Biennium Appropriations Report (issued in June 1993) as well as in the Governor's June, 1993 Appropriation Report, expenditures were projected to exceed revenues by \$5 to \$9 million each year. Although sufficient funds were projected through the 1995 biennium to maintain an overall fund surplus, a cash flow deficit was projected by the end of the 1995 biennium.



## 1997 BIENNIUM PROJECTIONS

Appendix A shows the actual and projected present law highways special revenue account revenues and expenditures from fiscal 1992 through fiscal 1999. Based on the revenue and expenditure assumptions listed in Appendix B, there will be an account surplus of \$66.3 million at the end of fiscal 1997. This estimate represents a biennial surplus after setting aside a reserve of \$20 million for cash flow management.

As stated earlier, original projections at the end of the 1993 legislative session were for a deficit of \$5.6 million at the end of the 1997 biennium. The primary reasons for the improved fiscal outlook are higher than anticipated fuel tax revenues resulting from House Bill 539 revenue collection revisions and increased consumption, as discussed later in this report.

### Reasons for Improved Fiscal Outlook

As stated above, the projections in Appendix A show an estimated fund surplus of \$66.3 million at the end of the 1997 biennium as compared to a deficit of \$5.6 million projected at the end of the 1993 regular session. The difference of nearly \$72 million is due primarily to increases in fuel tax and GVW fee revenue projections. Other minor differences in revenue and expenditure projections are offsetting.

There are two primary reasons for the increase in fuel tax revenues: 1) increased consumption of gasoline and diesel fuel; and 2) revised tax collection provisions of HB 539. Prior to July 1993, fuel taxes were collected on a quarterly basis from the user. As a result of HB 539, fuel taxes are now collected on a monthly basis from the distributor. HB 539 also now requires taxes on fuels to be paid at the time of purchase. Prior to the passage of this legislation, buyers were obligated to report the number of gallons purchased and submit payment of taxes to the state. As a result of this legislation, it appears that there is significantly greater tax payment compliance than estimated in the fiscal note used to estimate revenues in the 1993 legislative session.

In addition, revenue estimates were understated in fiscal 1994 due to two factors: 1) initial estimates did not include a full 12 months anticipated revenue collections in fiscal 1994; and 2) estimates did not include two months' collections under the 7 percent surcharge enacted in the July 1992 special session.

GVW fee revenue estimates have exceeded projections primarily as the result of increased new vehicle sales (on which a GVW tax is paid) and increased trucking activity, according to DOT.

## Factors Which May Impact Projections

There are several issues that may materially alter the projections, including: 1) continued support of the Motor Vehicle Division; 2) the amount of federal aid funds distributed to Montana; and 3) other factors. These issues are discussed briefly below.

Motor Vehicle Division Allocation - The 1993 Legislature allocated \$5.4 million of highways special revenue funds to support the Motor Vehicle Division in the 1995 biennium, replacing general fund. No clear legislative intent was made as to whether the allocation would be continued in future bienniums. The projections in Appendix A continue the allocation to the Motor Vehicle Division beyond the 1995 biennium at the level appropriated in fiscal 1995.

Federal Funds Estimate - The construction projections reflected in the attached tables (as estimated by DOT) may represent too low an estimate of the maximum highways special revenue funds needed to match federal funds. - The Federal Highway Administration provides authority for a federal aid highways program of up to 30 percent more each year than the level used by DOT for the construction work plan projected in this analysis. In addition, the level of federal contingency funding anticipated by DOT is lower than the level in prior year projections and appropriations.

If available federal authority continues to increase (as can reasonable be anticipated), the likelihood is increased that the current estimates of state highways funds needed as matching funds are inadequate. If the estimates are inadequate, DOT would have to reduce program expenditures or request additional revenues.

Other Factors - There are several other factors that may offset the continued highways account balance in the next several years:

- 1) **additional budget modifications** - the expenditure projections in Appendix A include only budget modifications approved for the 1995 biennium (\$21 million). If DOT requests significant program expansions (as they have consistently done in past bienniums), total expenditures will be higher than projected;
- 2) **inflationary increases** - increases in the programs funded by the highways fund have traditionally been higher than the conservative 2 percent inflationary increase included in the projections for fiscal 1996 and beyond. If this pattern continues, expenditures will be understated; and
- 3) **distribution to Indian reservations** - since the required distribution of fuel tax revenues to Indian reservations is still being negotiated, the \$3.6 million annual estimates in the projections may be understated.

## CONCLUSION

New revenues from increased fuel taxes and consumption, as well as from other sources, have reversed the structural imbalance in the highways special revenue fund that occurred for several bienniums. Beginning in fiscal 1994, annual revenues exceed annual expenditures, and this trend is projected to continue through fiscal 1999. However, because revenues and expenditures are closely matched, if the 1995 Legislature adds new programs or increases state employee pay, approves program expansions to match additional federal highway appropriations, or adds inflation above two percent, expenditures could begin to exceed revenue and the fund balance will again decline.



# Highways State Special Revenue Accounts

## Estimated Cash Flow

Fiscal years 1992 through 1999

	Fiscal 1992	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999
<b>Beginning Cash Balance</b>	\$90,587,804	\$84,334,703	\$67,156,047	\$76,711,086	\$78,201,282	\$81,972,840	\$86,329,112	\$90,911,725
<b>Revenues – Current Level</b>								
Gasoline Tax	91,268,253	89,534,371	108,594,636	116,700,000	116,700,000	116,700,000	116,700,000	116,700,000
Diesel Tax	27,174,154	26,179,233	43,412,610	44,353,971	44,797,511	45,245,486	45,697,941	46,154,921
GVW tax	27,058,448	29,644,897	27,863,178	26,987,792	26,987,792	26,987,792	26,987,792	26,987,792
Coal Tax	5,212,093	935,034	4,942,557	4,941,370	4,941,370	4,941,370	4,941,370	4,941,370
Bond Issuance Earnings	0	112,040,000	0	0	0	0	0	0
Stores	11,969,515	12,461,143	13,413,888	23,518,767	23,989,142	24,468,925	24,958,304	25,457,470
Other	4,103,070	1,632,162	4,010,860	1,275,585	1,275,585	1,275,585	1,275,585	1,275,585
Indian Reservation Distribution	(35,842)	(1,399,215)	(1,858,645)	(3,667,600)	(3,667,600)	(3,667,600)	(3,667,600)	(3,667,600)
Adjustment	(189,880)	2,817,197	52,570	0	0	0	0	0
Total Current Level Revenue	\$166,559,811	\$273,844,822	\$200,431,654	\$214,109,885	\$215,023,800	\$215,951,558	\$216,893,392	\$217,849,538
Available Working Cash	\$257,147,615	\$358,179,525	\$267,587,701	\$290,820,971	\$293,225,082	\$297,924,398	\$303,222,504	\$308,761,263
<b>Expenditures – Current Level</b>								
General Operations	7,740,286	7,927,187	8,309,797	7,534,568	7,891,127	8,048,950	8,209,929	\$8,374,127
Construction (and overhead):								
Federal Aid Construction	43,401,024	38,390,895	37,203,993	38,167,476	42,317,441	41,535,762	41,206,237	\$41,532,065
RTF Construction	16,629,680	14,789,665	14,953,199	23,706,439	19,985,262	19,597,811	20,000,000	\$20,000,000
Maintenance	47,661,846	51,652,872	58,525,487	60,329,430	61,536,019	62,766,739	64,022,074	\$65,302,515
Stores	14,227,850	13,961,289	16,498,395	23,518,767	23,989,142	24,468,925	24,958,304	\$25,457,470
GVW	3,715,305	4,004,597	3,973,802	4,108,743	4,190,918	4,274,736	4,360,231	\$4,447,436
Motor Fuels	10,000	0	0	0	0	0	0	\$0
Rail and Transit	151,165	349,711	833,140	886,214	903,938	922,017	940,457	\$959,267
Bond Principal & Interest	10,655,332	18,596,536	17,351,878	17,757,630	17,686,151	17,602,816	15,975,628	\$15,976,702
Local Government Distribution	14,075,000	14,075,000	16,712,000	16,712,000	16,841,000	16,841,000	16,841,000	\$16,841,000
1987 Bond Arbitrage Rebate (net)	1,357,559	112,040,000	0	0	0	0	0	\$0
IIB 5 – Long-Range Bldg – DOT	372,412	936,468	\$2,938,386	1,636,250	1,643,000	1,013,000	1,013,000	\$1,013,000
Dept of Justice – Hwy Patrol	11,957,554	12,570,026	14,158,083	16,928,172	12,934,244	13,189,530	13,449,920	\$13,718,918
Highway Traffic Safety	72,646	0	0	0	0	0	0	\$0
Dept Fish, Wildlife, & Parks	0	11,397	360,198	1,334,000	1,334,000	1,334,000	1,334,000	\$1,334,000
Adjustment	785,253	1,717,835	(941,743)	0	0	0	0	\$0
Total Current Level Expenditures	\$172,812,912	\$291,023,478	\$190,876,615	\$212,619,689	\$211,252,242	\$211,595,286	212,310,779	214,956,500
Revenue Exceeds (Less than) Expenditur	(\$6,253,101)	(\$17,178,656)	\$9,555,039	\$1,490,196	\$3,771,558	\$4,356,272	\$4,582,613	\$2,893,038
<b>Ending Cash Balance</b>	\$84,334,703	\$67,156,047	\$76,711,086	\$78,201,282	\$81,972,840	\$86,329,112	\$90,911,725	\$93,804,763
Minimum Working Cash Balance	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000
Ending Surplus	\$64,334,703	\$47,156,047	\$56,711,086	\$58,201,282	\$61,972,840	\$66,329,112	\$70,911,725	\$73,804,763

# APPENDIX B

---

## ASSUMPTIONS USED IN PREPARING BUDGET PROJECTIONS

Included in the projected expenditures are an Reconstruction Trust Fund (RTF) program of \$20 million per year and an inflationary increase for personal services and operating expenses beyond the 1995 biennium. The 1995 biennium expenditure projections are based on the appropriations approved by the 1993 Legislature. Specific assumptions used in preparing the projections are listed below.

1. Revenues from fuel taxes are based on Office of the Legislative Fiscal Analyst (LFA) estimates. Coal tax estimates are based on Revenue Oversight Committee (ROC) revenue estimates. GVW fees are based upon estimates provided by the Department of Transportation (DOT).
2. The fuel tax increase includes a 4 cent increase on July 1, 1993 and a 3 cent increase on July 1, 1994 (Senate Bill 257), and a 0.75 cent diesel tax increase effective January 1, 1994 (House Bill 651).
3. Fiscal 1995 expenditures represent appropriated amounts, with the exception of construction estimates, which are based on the DOT project management system.
4. Highway construction costs are as projected by DOT based on the maximum use of federal aid funds, reduced by DOT anticipated limitation levels. RTF expenditures are continued at the \$20 million per year level.
5. A 2 percent inflationary increase for administrative programs (excludes highway construction) is included for all years beyond the 1995 biennium.
6. No program expansions (modifications) are included in the estimates for the 1997 and 1999 biennia.
7. Historical revenue and expenditure amounts for fiscal years 1992, 1993 and 1994 include accruals.
9. An ending balance of \$20 million each fiscal year is included in the budget projection. DOT considers this the minimum balance required to adequately manage the highways fund cash flow. Surplus/deficit amounts referred to in the cash flow estimates are the amounts above or below the minimum \$20 million balance.



